

A MODEL FOR LOYALTY IN THE CONTEXT OF CUSTOMER RELATIONSHIP MARKETING

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Abstract

This paper focuses on the effect communication on the sales performance within CRM. The paper uses the hotel business as an example to evaluate if communication within Customer Relationship Management creates loyalty measured by the re-purchase behavior of existing hotel guests. The re-purchase behavior is regarded in the paper as the final outcome of loyalty.

In addition the research evaluates the qualitative distinctions between the most common message transmitters in direct marketing, namely e-mail and post mail. Over the last years an increasing number of companies have replaced the costly media channel post mail with the cheaper channel e-mail. This was done without a fundamental knowledge of the effect of switching marketing channels on the sales performance.

Different variables are responsible for customer loyalty. The author uses the European Customer Satisfaction Index model (ECSI) to create a new model which describes loyalty from a Customer Relationship Management standpoint.

For the quantitative research the marketing actions and bookings of four hotels in Germany were reviewed over a time period of 4.5 years. Due to relatively low marketing budgets hotels rely on direct marketing, therefore the results should also be applicable as a benchmark for other SME's.

The results show a direct correlation between communication and the sales performance. Also a clear qualitative distinction between e-mail and post mail as a message transmitter within CRM could be identified. The outcome should stimulate manager to re-evaluate their existing communication strategy and should be used as a basis for further research.

Keywords: CRM, loyalty, communication, sales

Introduction

The goal of an efficient Customer Relationship Management (CRM) strategy is to develop, keep and retain profitable customers. Many studies describe the effects of customer loyalty to an organization. Reichheld and Sasser calculated with a profit boost by up to 100% by retaining just 5% more customers (C.F. Reichheld F., Sasser E. (1990)); loyal customers intend to be less price-sensitive and would accept a 5% price increase in order not to endanger a relationship (C.F. Homburg C., Rudolph B. (1995)); and the retention of loyal customer's costs only 15 to 20% compared to the acquisition of new customers (C.F. Müller W., Riesenbeck H.-J. (1991)). Summarized loyalty provides companies more security, more growth and a better profitability (C.F. Gruner A. (2003)).

Without a doubt Customer Relationship is one of the most important success factors in the hospitality industry (C.F. Kopatz A., Waskönig A., Wassel P., Ploss D. (2002)) with communication playing an integral part in it. The difficulty in this context is, that the effect of communication on the loyalty of existing customers is not finally clear, no long-term studies

are available which shows the result of Relationship Marketing (RM) activities on the re-buying behavior.

Marketing is such a complex field that Wannamaker made the following famous statement: „I know that half of my advertising spending is wasted, I just don't know which half.” (C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999)) According to a study from McKinsey and OWM conducted in 2012 only 15% of the responsible marketing managers believe that they know how much the different communication channels contribute to the company's success. Marketing agencies rate the competence of their clients much lower, only 3% are considered to have this capability (C.F. McKinsey, OWM (2012)). But these numbers do not relate to Relationship Management activities it is related to the sales effect of short term and transaction oriented marketing.

In order to evaluate the role of communication on loyalty the author adopted and enhanced the existing European Customer Satisfaction Index (ECSI) model and did a quantitative research with the booking and marketing data of four five-star hotels in Germany over a period of 4.5 years. Within a “Big Data” environment and the usage of an integrated CRM system it was possible for the first time to carry out a long-time study about the effects of communication on loyalty.

Literature Research

Communication and Customer Relationship Management

Marketing and Customer Relationship Management are strongly intertwined. Dick, Basu spoke already in 1994 about a dramatic shift in marketing away from a traditional transaction-oriented marketing to a longer-term focus of obtaining and keeping customers (C.F. Dick A. S., Basu K. (1994)). Today, the primary focus of marketing activities in an organization is often on the development, maintenance and enhancement of consumer loyalty toward its products or services (C.F. Grönroos C. (1995)).

Customer Relationship Management and Customer Relationship Marketing are commonly used for the same topic, abbreviated with the letters CRM. Customer Relationship Management includes all efforts of a company to positively influence the relationship between a company and a customer in order to stabilize respectively to enhance the relationship (C.F. Bruhn M., Homburg (2005)). CRM requires a sustained program of investing in and developing a wide range of resources e.g. brand, distribution networks, supply chains and know-how (C.F. Maklan S., Knox S., Peppard J. (2011)). Summarized the focus of CRM is to gain and keep profitable customers and those with a high potential.

Harker who analyzed 26 different definitions of Relationship Marketing (RM) respectively Customer Relationship Marketing came to the conclusion that an organization which is engaged in proactively creating, developing and maintaining committed, interactive and profitable exchanges with selected customers (partners) overtime is engaged in relationship marketing (C.F. Harker M. J. (1999)).

Based on the different definitions the author defines Relationship Marketing as a sub-domain of Customer Relationship Management to maintain and creating relationships with existing customers through marketing actions. The goal is to increase revenues and buying frequencies to gain a higher share of wallet to finally enhance the lifetime value of a customer. RM is therefore not a single project but a marketing strategy focused on the customer with the goal to maintain and increase the profitability of a company.

Communication plays a central role within Customer Relationship Management (CRM). Especially in the service industry a well-structured and valuable communication has a strong effect on consumer perception. Ball, Coelho and Machás cited that a qualitative valuable communication leads to trust, satisfaction and loyalty (C.F. Ball D., Coelho P. S., Machás A. (2004)).

Following Guffey and Almonte communication is the transmission of information and meaning from one individual or group - the sender - to someone else - the receiver. The main objective of communications is the transmission of meaning (C.F. Guffey M. E., Almonte R. (2009)). Normally communication is the exchange of information between the sender and the receiver. This is slightly different in marketing as in many cases the communication is a one-way transfer of information from the transmitter to the audience. Therefore Seeborn describes communication as the exchange of information respectively all forms of information transmission (C.F. Seeborn J. (2011)).

The transmission of information can result in learning processes and remembering effects. Since existing customers know the product of a sender the main purpose of communication within RM shall be the creation of remembering effects and through that leading to buying impulses. But the high number of the different available communication channels respectively show how complex it is to verify and measure communication results.

The Construct of Loyalty

The Stanford Encyclopedia of Philosophy defines loyalty in the way that “loyalty is characterized as a practical disposition to persist in an intrinsically valued (though not necessarily valuable) associational attachment, where that involves a potentially costly commitment to secure or at least not to jeopardize the interests or well-being of the object of loyalty.” (Stanford Encyclopedia of Philosophy (2011))

In a business context loyalty is a psychological awareness process or the observable reaction of a consumer, where intentional and factual retention or intensification of the relationship is based on specific reasons (C.F. Keaveney S. M. (1995)).

Retention and loyalty are in many cases used as synonyms for customer loyalty. Bruhn argues that loyalty requires a positive attitude from the consumer towards a company and its services, retention on the other side can also exist with a negative attitude towards a company (C.F. Bruhn M. (2009)).

Loyalty overall is a complex subject. The overall theoretical construct of loyalty is described in the following figure. The psychological and behavioral effects are separated into two areas, a cognitive and a conative part. On the psychological level the variables ‘perceived quality’ and ‘perceived value’ influence the level of satisfaction, which finally influences the commitment towards a supplier. The behavioral results are the possibility of recommendation and loyalty itself.

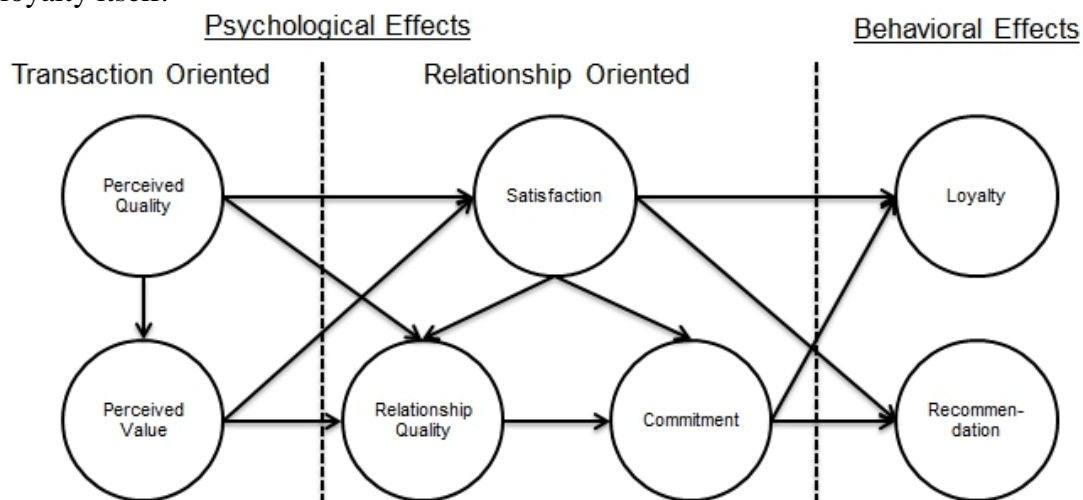


Figure 1. Variables of Loyalty

(Source: Own Figure based on Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, P. 68)

Loyalty and satisfaction are clearly separated variables or outcomes, as can be seen in the model, although they are clearly related (C.F. Oliver R. (1999)). In general, it can be stated that the higher the level of satisfaction, the higher the chances for positive effects on loyalty (C.F. Hallowell R. (1996)). All common loyalty models follow the pre-described theoretical foundation and use satisfaction as their central element. The most mentioned models in the research are the American Customer Satisfaction Index (ACSI), the European Customer Satisfaction Index (ECSI) and the Swedish Customer Satisfaction Barometer (SCSB) (C.F. Johnson M. D., Gustafsson A., Andreassen T. W., Lervik L., Cha J. (2000)).

The European Customer Satisfaction Index (ECSI) which is used in the following is adapted from the SCSB and ACSI and consists in total of seven variables, with four drivers: image - which means the idea that customers have from the product or company; expectations - which means the information customers have made with products and services offered by the company; perceived quality - which consists of product quality plus service quality and corresponds to recent experiences made with similar products or services; perceived value - which means the price value relationship and three consequences: satisfaction; complaints - which means the management of complaints and loyalty - the long-term commitment and repurchasing intention of the customer (C.F. Ferreira I., Cabral J., Saraiva P. (2010)).

Hypothesis and Development of a Loyalty-Model for Relationship Marketing

Main Research Question

The literature research and the review of the different loyalty models revealed that the subject of communication is not part of the current models. Additionally a model which describes Relationship Marketing in a broader context is not existing as well. Although researchers as well as managers agree on that communication is a central part of Customer Relationship Management respectively Relationship Marketing a model or numbers are not available.

Therefore the main research question the author tries to answer is:

H0: Has communication to existing customers a positive effect on loyalty?

The question means in detail how valuable are the mainly used direct marketing channels, namely e-mail and post mail, in order to create loyalty. Loyalty in the model is defined solely by the re-purchase behavior of existing customers following the Swedish Customer Satisfaction Barometer (C.F. Ogikubo M., Schvaneveldt S. J., Enkawa T. (2009)).

1.1. Development of a Loyalty Model which covers the Aspect of Communication

The "Relationship Marketing Loyalty Model" is an adoption and enhancement of the existing ECSI model. Ball, Coelho and Machás already enhanced the existing ECSI model by the variables communication and trust but not in a context of Customer Relationship Management.. Their findings were that satisfaction is the most important variable for the explanation of loyalty, though the second highest effect on customer loyalty has the variable communication (C.F. Ball D., Coelho P. S., Machás A. (2004)).

For the model the author add the variables communication channel, time and frequency. The following table shows the enhancements and differences between the RM Loyalty Model and the ECSI model. The RM Loyalty Model uses the existing findings of the ECSI model where the driver variables expectations, perceived quality, image and perceived value leads to the consequences customer satisfaction, complaints and loyalty.

<i>Variables</i>	ECSI	RM Loyalty Model
<i>Drivers</i>	customer expectations	customer expectations
	perceived quality	perceived quality
	image	image
	perceived value	perceived value
		<i>communication channel</i>
		<i>frequency</i>
		<i>time</i>
<i>Consequences</i>	customer complaints	customer complaints
	customer satisfaction	customer satisfaction
	Loyalty = repurchase behavior plus intention to recommend plus intention to buy addition	<i>Loyalty = repurchase behavior</i>

Figure 2. Drivers and Consequences in the RM Loyalty Model compared to the ECSI Model

(Source: Own Figure based on Ferreira I., Cabral J., Saraiva P. (2010). 'An integrated framework based on the ECSI approach to link mould customers' satisfaction and product design'. Total Quality Management, Vol. 21, PP. 1386-1387)

Communication in the model is defined as a one-way transfer of messages from a company to its existing customers using direct marketing channels. The overall value of RM are the measured positive economic effects. Therefore the author follows Harvey, Mogg and Enis who evaluated the value of communication respectively its effectiveness in terms of conversion of consumer attention to purchase action (C.F. Heinonen K., Strandvik T. (2005)). The model does evaluate customer loyalty in form of the generated behavioral results which means the repurchase behavior.

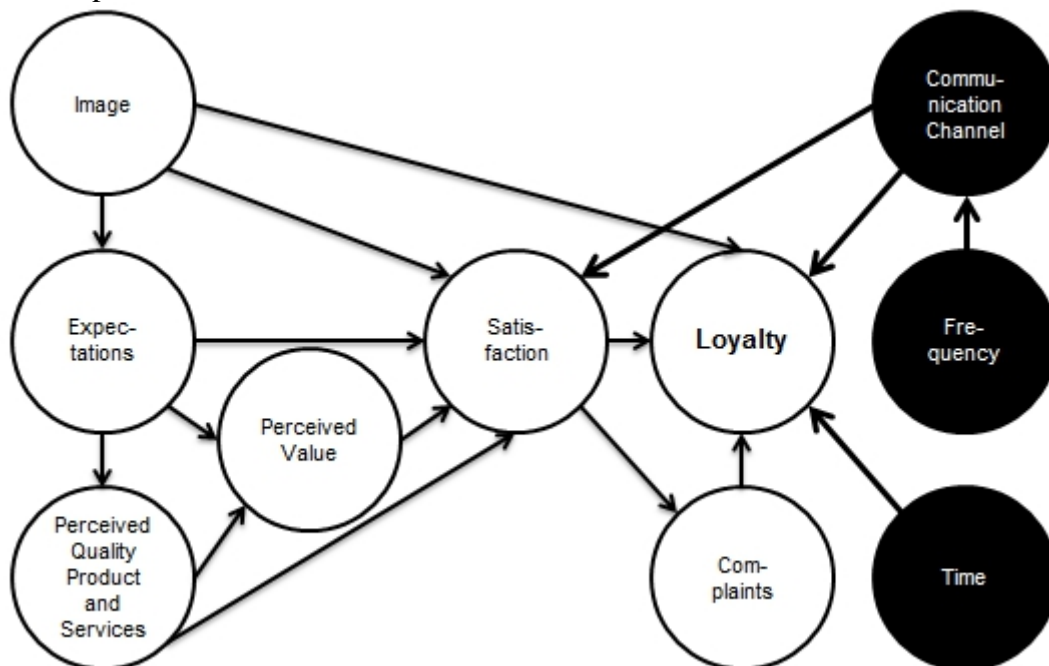


Figure 3. The RM Loyalty Model for Explaining Relationship Marketing

(Source: Own Figure based on Ball D., Coelho P. S., Machás A. (2004). 'The role of communication and trust in explaining customer loyalty'. European Journal of Marketing, Vol 38, No 9/10, P. 1277)

In the developed “RM Loyalty Model” (see figure above) communication is divided into the variables “communication channel“, “frequency” and “time”. The driver variable frequency stands for the number of sent messages. The third additional variable is “time”. Time in the model is defined as the timespan between the present date and the last purchase of a customer.

Empirical Analysis of the RM Loyalty Model – Results & Interpretation

The data for this quantitative research is secondary data, which has been gathered over a period of 4.5 years by collecting data of RM activities from four different hotels. In total 249,742 customers with 474,521 bookings were included in the total data set. In order to rate the value of Customer Relationship Marketing it was necessary to narrow down the test group to the so-called “First-Timers”, new customers which had their first stay within a certain period. The defined lapse of time was the 2nd half-year of 2007 (n^{-1} to n^0 in the figure). In total 5,222 guests spent their first stay between July and December 2007 in one of the four hotels. All first timers with either a correct mail address or valid email address were included in the test group. From January 2008 to December 2011, all direct marketing actions were monitored. Through that process all bookings generated after the dispatch of a message from members of the target group were tracked and included in the analysis.

In the research model the independent variables are the number of messages for each communication channel (e-mail, post mail) which influences the dependent variable “Number of Bookings”.

In the first step it was evaluated if the distribution is significant between the variables e-mail and post mail and the generated number of bookings. A non-parametrical test (median test) was used since the variables were not characterized by a normal distribution. Since the significance level (Sig.) was .000 for both communication channels the null hypothesis could be rejected. This means that the reviewed communication channels have a significant influence on the number of bookings.

Since the null hypothesis could be rejected the strength of the correlation between the variables was measured with the Pearson correlation systematic. All channels showed a positive correlation coefficient. For the channel e-mail the correlation on the number of bookings was 0.237, for post mail 0.302.

Based on the Pearson correlation the coefficient of determination was calculated. It describes the value of the regression model. The value of coefficient of determination varies between 0 and 1. The closer the value to one the better the correlation for the variables within the model (C.F. Rahul J. (2009)).

Table 1. Coefficient of Determination for the different Media Channels

Media Channel	Pearson Correlation	Coefficient of Determination
E-mail:	$r = 0.237$	$R^2 = 0.056$
Post Mail:	$r = 0.302$	$R^2 = 0.091$

Ceteris Paribus the channel post mail has an influence of 9.1% on the generation of hotel bookings. E-mail has an influence of 5.6%. These numbers support the assumption that a qualitative difference between the surveyed channels exists. The following figure describes the influence of communication on loyalty.

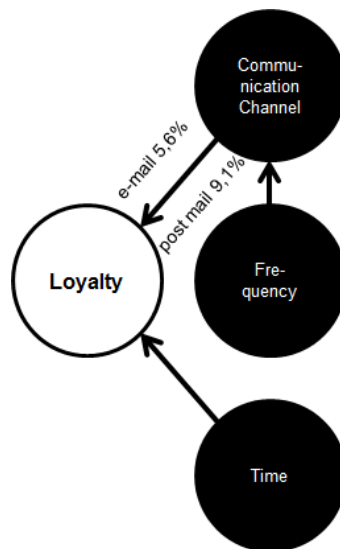


Figure 4. The Influence of Communication on Loyalty within CRM
(Own figure)

The figure is a snapshot of the overall loyalty model highlighting the effect of communication. The research question about the role of communication within CRM can be answered: Communication has a direct effect on loyalty and between the different message transmitters exist a qualitative distinction. This leads to the result that the electronically transmitted media channel e-mail has a significantly lower influence on the re-purchase behavior of existing customers as the traditional and touchable media channel post mail.

Conclusion

While researching the literature concerning the role of communication within Customer Relationship Management it became clear that this topic is relatively new for the scientific community. Although it seems to be clear that communication plays a central role within CRM no loyalty model could be found which covers the different relevant variables of CRM. Even the role of the different media channels as message transmitters for existing customers are un-covered so far.

The hypothesis that communication plays an important role for the creation of loyalty respectively for keeping existing customers loyal could be confirmed. The channels e-mail and post mail have a direct influence on the number of bookings. But the quality as a message transmitter for both channels is different. Post mail campaigns create higher booking rates than e-mail messages. This leads to the assumption that the channel e-mail should not be regarded as a replacement for post mail. E-mail should be used furthermore as an additional channel to stay in touch with existing customers.

There are of course several limitations to this research. Beside communication several variables are responsible for the creation of loyalty. On top the hotel business has its own specifications and is very fragmented. The research was done with four hotels in Germany, geographical differences may exist. Another point is the changing media landscape. Today customers receive more e-mails than during the test period in addition smart phones changes the reading behavior and influences the ability to perceive electronically transmitted marketing messages. It is recommended to test the outcome with other hotel types in different geographical regions as well as in other industries.

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